Effect of COVID-19 on Revenue of Private Hospital Sector

By

Vipul Singh

Dissertation submitted in partial fulfillment of the requirements of the degree

MBA Hospital and Health Management

Academic year, 2018-2020

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TO WHOMSOEVER MAY CONCERN

This is to certify that **Vipul Singh**, student of MBA Hospital and Health Management from the The IIHMR University, Jaipur internship / dissertation training at _______________ from_________ to ______________.

The student has successfully carried out the study designated to him during the internship /dissertation and his approach to the study has been sincere, scientific, and analytical.

The Internship/ Dissertation is in fulfillment of the course requirements.

I wish him all success in all his future endeavors.

	Dr. Neetu Purohit
Dean Academics and Student Affairs	Assistant Professor
The IIHMR University, Jaipur	The IIHMR University, Jaipur

THE IIHMR UNIVERSITY, JAIPUR

CERTIFICATE BY SCHOLAR

This is to certify that the dissertation titled **"Effect of COVID-19 on Revenue of Private Hospital Sector"** and submitted by **Vipul Singh** Enrollment no. 0859 under the supervision of **Dr. Neetu Purohit** for award of MBA Hospital and Health Management of the University carried out during the period from ________to _______embodies my original work and has not formed the basis for the award of any degree, diploma associate ship, fellowship, titles in this or any other institute or other similar institution of higher learning.

Signature

Abstract

Title: Effect of COVID-19 on Revenue of Private Hospital Sector

Author: Vipul Singh

The overall number of cases and deaths recorded by COVID-19 is 23,077 as well as 718 by 24 April 2020 (Worldometer, 2020). This is a troubling scenario, as India will reach Stage 3 of COVID-19 transmission in a few days with a wide population. If no appropriate therapy or vaccination is used and if the epidemiological process is not completely known, it will be very difficult to stop the spread of this virus. The COVID-19 has impacted the Indian Economy and the COVID-19 pandemic has had an adverse impact on the private hospital also, leading to drop in occupancy level to the tune of 25–40 percent in April 2020, with reduced surgical case counts, reduced diagnostics, and almost zero medical tourism, resulting in overall decreased turnover and reduced average revenue per occupied bed (ARPOB) – a key financial indicator for the hospitals [1]. Descriptive study was performed through the review of secondary studies on COVID-19 impact on Private Hospital Sector and data was collected from journals, articles, reports, and organization websites for review. Objective of this report is to study the effects of COVID-19 on the private hospitals' revenue in the 50-day period and also to highlight the estimate and project operating losses for the sector during COVID-19 crisis based on secondary literature review data

In this study, observed the COVID-19 affected the operations of the private hospital for a long term with large reduction in patient footfall by 70% and revenue by 80%. Now the hospital sector also looking at the government to revive from this crisis by announcing some measures to provide short-term relief and improve cash flows of the hospitals

Acknowledgement

I am grateful to almighty for giving me the strength to successfully finish my work and for sustaining my efforts which many a time did oscillate.

I am deeply indebted to Dr. Neetu Purohit, a true guide and mentor, without whose constructive feedback and constant support this project would not have been a success. The valuable advice and suggestions for the corrections, modification and improvement did enhance the perfection in performing my job well.

I also acknowledge with deep sense of reverence, the gratitude I feel towards my parents for standing by me and keeping faith in all my decisions. Can never thank them enough for the constant strength and support.

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Acronyms/Abbreviations

EBITDA	Earnings before interest, tax, depreciation and amortization (the profit of the company before paying the expenses, taxes, depreciation, and amortization)
PAT	Profit After Tax
PPE	Personal Protective Equipment
TDS	Tax Deducted at Source
PF	Provident Fund
ESI	Employees' State Insurance
CGHS	Central Government Health Scheme
ECHS	Ex-servicemen Contributory Health Scheme
ROCE	Return on capital employed

STUDY ON EFFECT OF COVID-19 ON REVENUE OF PRIVATE HOSPITAL SECTOR

Introduction-

The Coronavirus has become a major humanitarian challenge and requires a lot of sacrifices to combat the disease. It has been declared a global pandemic by the World Health Organization (WHO) and the virus continues to spread rapidly around the world through myriad active centers of transmission. The disease is highly transmissible and disproportionately affects those with underlying conditions. It has led to a global breakdown and affected almost all major countries of the world bringing a slowdown and recession in the economy due to consistent lockdowns by the nations.

The Coronavirus has greatly impacted the Indian Economy including healthcare sector. The research is being carried out by different organizations and researchers to predict the financial and economic condition of the private hospital sector soon. The private hospital sector in the country is witnessing a record slowdown due to the outbreak of Covid-19 in India and the resultant lockdown. The sector is expected to witness short term operating losses to the tune of Rs 14,000 to 24,000 Cr for a quarter. The pandemic has caused an adverse impact on the private healthcare sector resulting in 70-80 percent drop in footfall, test volumes and 50-70 percentage drop in revenue. [2-3] The health as well as wealth is both important pillars for the economy to survive and grow and hence, steps are being taken to improve the health conditions and financial conditions by launching support schemes and booster plans for the private hospitals and healthcare sector. Through this paper, my aim is to study the effect of COVID-19 i.e. Coronavirus on revenue of private hospital in India.

Literature review

Mr. Kaivaan Movdawall, 2020 highlighted the impact of COVID-19 on the revenue of the private healthcare sector by comparing the situation before the crisis and after the crisis. This paper especially talked about, how the private hospitals economy coping with the spread of the corona virus and calculate the estimated revenue in FY21. Highlighted the Government announced various policies to handle the situation of crisis and how these policies are successful and implemented in the real world is also the main component of the paper. In last, it has discussed the three approaches that crippled economic operations through corona virus. Liquidity infusion, indirect and direct tax benefits and fixed cost subsidies are among the key approaches for financial relief to the sector

Mr. Arun M. Kumar, KPMG report, 2020 had highlighted the spillovers of COVID-19 on the global economy. The report tries to highlight the impact of Coronavirus on different sectors of economy like travel industry, hospitality industry, sports industry, oil price war among countries, import dependent countries, financial sector, health sector, education sector, and entertainment industry. This report analyses the current and potential impact of the hospital sector and highlighted the health-burden carrying ability of systems, forcing governments to rethink and increase funding, manpower and infrastructure allocated to health. It also concludes that apart from all the challenges, it has made a major recommendations for private hospital to improvise their health sector and has led to a transition phase in the economy in terms of online education, transportation systems, health and hygiene and even an opportunity to fix both economic and financial system with great stimulus packages.

Oliver Wyman report, 2020 had highlighted the COVID-19 impact on healthcare sector across the Asia. The report shows that measures taken by the Asian countries and it also highlighted the short term and long-term impact on private healthcare sector across the Asia. The report analyses the impact on hospitals, employment, and supply chain in the healthcare sector. In addition, the report also discusses the impact of COVID-19 on the technology in the health sector. This finding indicates that greater portion of the private healthcare across the globe is affected by the COVID-19.

National Herald and NATHEALTH report,2020 reveal that 90 % of the healthcare services are facing financial challenges with 21 per cent facilities facing an existential risk. NATHEALTH was conducted a survey in 251 healthcare facilities across nine states and 69 cities to evaluate the impact of COVID-19 on the national healthcare business and this survey report highlight that the COVID-19 pandemic has port the Indian private healthcare sector in serious financial distress and also display that the healthcare facilities in the country have witnessed at least 80 per cent fall in average revenue

Healthworld.com, 2020 article highlighted the impact of COVID-19 on medial tourism. This article shows the fact that health benefit travel, which involves patients moving to India for treatment both in progressive medicine and AYUSH sector, is expected to be $3 billion market for India. The article analyses the impact on medical tourism market and the revenue loss by the private healthcare which depended on medical tourism.

PMJAY 2020, report define the role of private healthcare sector. This report highlighted the role of private sectors, during the current crisis, actions of the personal health sector should be the core of national health efforts. This process will, of course, must be guided by the government through a clear policy framework of authorized hospitals, reporting and referral systems and an appropriate payment system. In additional, the practice of purchasing healthcare services through implementation of the AB PM-JAY can deliver the template and know-how to work in partnership with the private sector.

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Rationale

The outbreak of the COVID-19 pandemic is an unprecedented shock to the Indian economy. The economy was already in a parlous state before COVID-19 hit. With the extended countrywide lockdown, global economic downturn and associated disruption of demand and supply chains, the economy is likely to face a protracted period of slowdown .The novel coronavirus (COVID-19) is expected to affect most of the private sectors including hospital sectors, either directly or indirectly and the increased economic uncertainly and risk may pose significant financial reporting implications. This study is conducted to uncover the effect of COVID-19 on revenue of private hospital sector.

Aim

The overarching aim of the study is to study the effect of COVID-19 on hospital sector based on assessments made by different analysts and industry body due to lockdown. The study aims to calculate the estimated loss in revenue and challenges faced in the private hospital sector.

Objectives

1. To study the effect of coronavirus on revenue of private hospital sector.
2. To highlight the estimate and project operating losses for the sector during COVID-19 crisis based on secondary literature review data

Research Question:

1. What is the current scenario of the private hospital sector during COVID-19 crisis?
2. What is the effect of the COVID-19 on revenue of private hospital sector?

Methodology:

Research Design:

Descriptive study

Data Sources:

This research study based on the review of the secondary literature.

Data Collection for review:

Journals, articles, reports, and organizations websites

Observation and result after data review

Pre-COVID Outlook of private hospitals

A private hospital is a hospital controlled by a for-revenue company or a non-profit organization and privately sponsored through payment for health check benefits by patients themselves, by underwriters, governments through national health insurance plans, or by overseas groups.

Revenue	2.4 L Cr.
EBITDA 13% of Revenue	31 K Cr.
PAT 3% of Revenue	7 K Cr.

Fig 1: Pre-COVID Revenue from private hospital sector in India

- Fig 1 shows the revenue for the private hospital sector is estimated at ~Rs 2.4L crore, EBITDA is estimated at ~Rs 31K crore (13%) and PAT is estimated at ~ Rs 7K crore (3%). The sector's median return on capital employed is ~7% which is lower than cost of capital of 14% and the median interest coverage ratio is ~2 vis-à-vis best in class reference of 5-6 The sector is also constrained severely in terms of liquidity with cash balances available to cover up to 19 days of operating costs and government receivables to the tune of 7-8% of revenue [4]

Effect of COVID-19 on hospital sector

	Decrease %
Footfall	70-80%
Occupancy	60-70%
Revenue	70-80%
EBITDA	80-90%

Fig 2: Effect of COVID-19 on hospital sector

Fig 2 shows that with strict lockdown actions being imposed to cover the epidemic of COVID 19, mostly hospitals are seeing a drop in both domestic and international patient footfalls by 70-80% and also drop in elective surgeries which resulting in occupancy levels to fall to a mere 60-70%by April and the figure also show an average fall in revenue by as much as 80%.[5]

Drop in Revenue after the announcement of lockdown

Fig 3 shows the three phase of revenue position i.e. in Feb that means before lockdown revenue is 100% but there is slightly decline in revenue in the month of March because lockdown announcement in end of the March and huge decline in the revenue after March because of the complete lockdown. In fig 3 it is clearly visible the change in revenue from before lockdown to complete lockdown

Private hospital sector is witnessing the drop in revenue by 60% of their pre-COVID figures post the nation-wide lockdown and this drop to 30-50% is likely to continue in following month/s

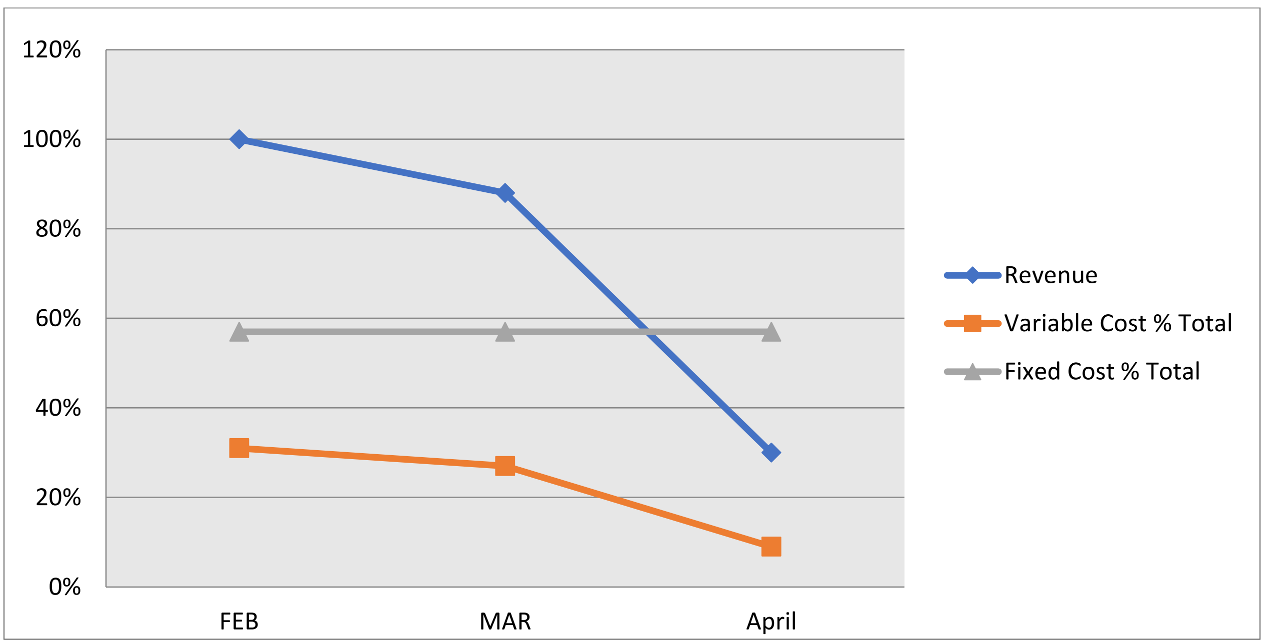


Fig 3: Fall in Revenue and Variable cost

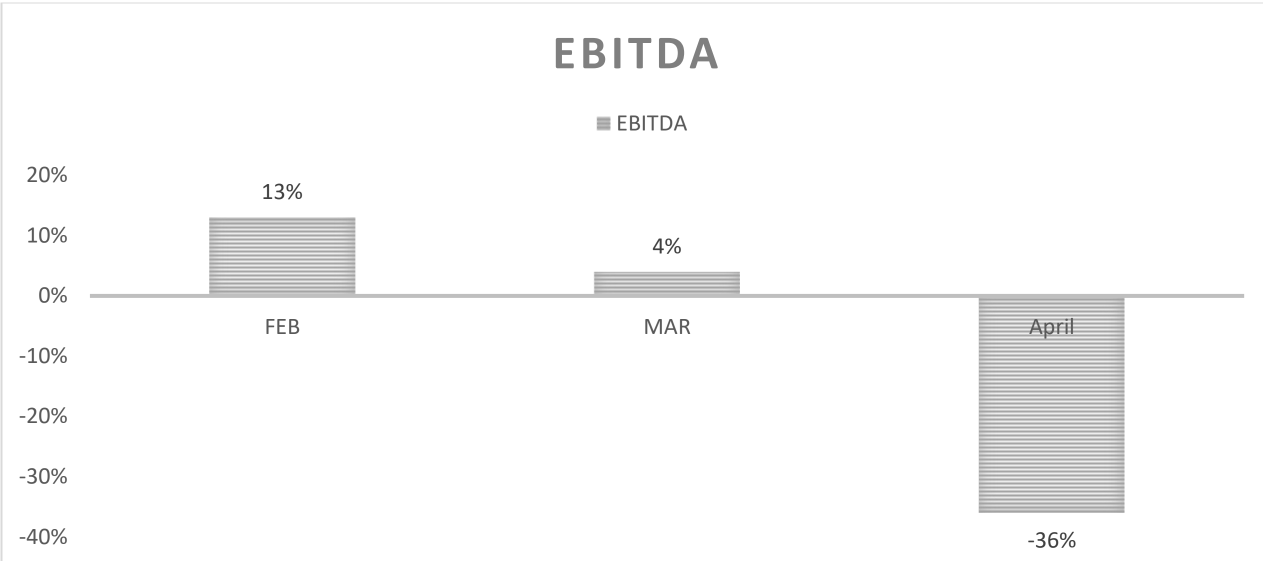


Fig 4: Fall in EBITDA

Fig 4 highlighted the change in EBITDA due to crisis. Before lockdown EBITDA is 13% but after lockdown announcement EBITDA start declining and for April month EBITDA is -36%

In fig 4 hospitals observed a drop in EBITDA to ~50% of their pre-COVID figures post the nation-wide lockdown and this drop to 10-30% is likely to continue in following months [6]

Assessment for monthly and quarterly of private hospitals

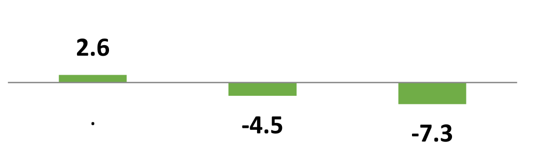
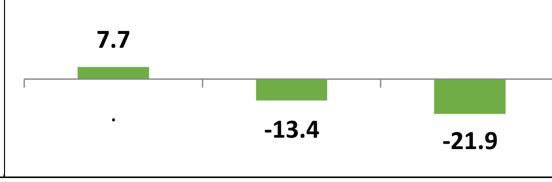
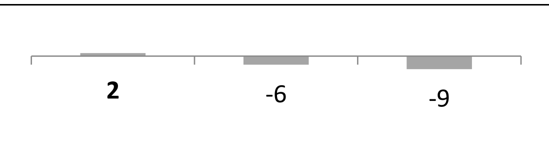
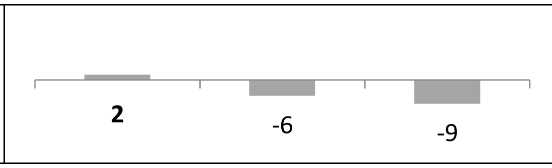
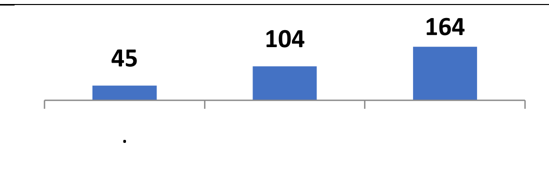
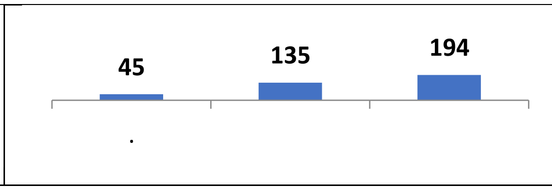
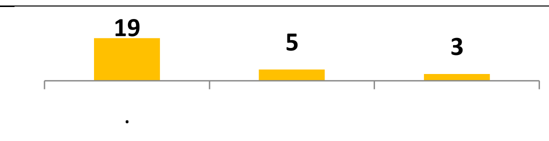
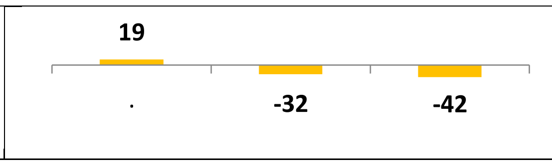
	Lock Down =Monthly			Lock Down = Quarterly		
	At pre-COVID revenue	If 50% fall in revenue and occupancy	If 70% fall in revenue and occupancy	At pre-COVID revenue	If 50% fall in revenue and occupancy	If 70% fall in revenue and occupancy
EBITDA (Rs '000s Cr.)						
Interest coverage ratio						
Receivable days						
Cash position in days						

Fig 5: Assessment for monthly and quarter during crisis

Fig 5 shows that-

- Operating losses are estimated to the tune of Rs 4,500 Cr for a month and Rs 13,400 Cr for a quarter if revenues are at 50% (occupancy of 35%).
- Losses are estimated to the tune of Rs 7,300 Cr for a month and Rs 21,900 Cr for a quarter if revenues are at 30% (occupancy of 20%).
- EBITDA margins witnessing a sharp fall to a level lower than -42% when occupancy of 35%
- EBITDA margins witnessing a sharp fall to a level lower than -119% when occupancy of 20%
- For the sector, which is already limited in phrases of liquidity, the onset of operating losses will reason cash balances to be completely exhausted if the situation persists for a quarter.
- While bed operation is low, private hospitals are expected to be "super ready" to administer any eventuality rising from this epidemic situation. Hence opportunity to

reduce fixed costs is very limited unlike other industry sectors. Increase in costs owing to infection control and PPE have not been factored in the above estimates.

- The lockdown is likely to result in significant operating losses to the tune of Rs 13,400 – 22,000 Cr. for the quarter and liquidity crunch as evidenced by the impact assessment. If the circumstances persist, providers will face severe liquidity crisis with cash balance likely to coat operating losses only for 1-2 months

Comparison between the Pre- and Post-COVID era

Fig 6: Hospital Financial Performance in Pre- and Post-COVID era

Timeframe	Occupancy (April 20)	Revenue Growth (April 20)	Revenue Growth (FY21)	EBITDA (April 20)	Annualized EBITDA (FY21)
Pre-COVID era	75-80%	5-8%	5-8%	12-18%	12-18%
Post-COVID era	25-40%	(65)-(55)%	(30)-(20)%	(40)-(25)%	(15)-5%

*Assuming the lockdown ends in May

The above fig shows the comparison between the estimated data and the real data of April 2020. Occupancy for the April 2020 without crisis is estimated 75-80% with revenue growth 5-8% and positive EBITDA. But occupancy for the April 2020 with crisis is 25-40% with no revenue growth and negative two-digit EBITDA for April 2020.

FY21 projected revenue growth without crisis is 5-8% and annualized EBITDA for FY21 is 12-18% [6]

Estimated Performance of FY21 based on different occupancy percentage

Fig 7: Estimated FY21 Performance

		Scenario 1	Scenario 2
Metric	FY20	FY21	FY21
Revenue	100	75-80	60-65
Occupancy%	70%	55-60%	45-50%
EBITDA%	13%	(5)-5%	(15)-(10) %
ROCE	7%	(10)-(5) %	(15)-(10) %

Scenario 1: Occupancy to gradually ramp-up from 40-45% in Q1 to 65-70% in Q4 FY21
Scenario 2: Occupancy to gradually ramp-up from 30-35% in Q1 to 60-65% in Q4 FY21

The above table shows the data for hospital future and options for the upcoming year and also highlight the sector expected to be lower by 20-35% in terms of revenue (compared to FY 20) and have early single digit or negative EBITDA in FY 21 and occupancy is expected to be lower by 10-15% (compared to FY20) for Scenario 1 in the table

From above table Scenario 2 column shows that the sector is also expected to be lower by 35-40% in terms of revenue (compared to FY 20) and have early single digit or negative EBITDA in FY 21 and occupancy is expected to be lower by 20-25% (compared to FY20) [7]

Observed COVID-19 Effect on Hospital sector

	Short-term impact and possible long-term impact
Hospitals	• Lower footfall in private hospitals • Separate rostering of team • Rearrangement of hospital wards & rooms to make vacant isolation zones • Limiting patient mobility (e.g., online drug delivery) • Delaying non-critical surgeries/treatments • Risk evaluations as board/senior; SOPs for outbreaks • New focus on health restraint & promotion & observing • Investments around epidemic control • Better coordination with government, customers, other participants • Repurposing of space to screen and triage

Actions already taken by the Government

Key Themes	Action taken by the Government
Clearance of outstanding dues of CGHS, ECHS	Ministry of Finance has approved clearance of outstanding dues with Government to be taken up immediately, especially outstanding of CGHS and ECHS
Basic customs duty and Health Cess exemption	Considering urgent necessity of ventilators and other items, the Central government has permitted exemption on essential customs duty and Health Cess, on the import of following goods with immediate effect - Ventilators - Face Mask, Medical Mask - Personal Protection Equipment (PPE) - Covid-19 Test Kits - Responses for production of above items - Essential custom duty exclusion shall be available up to 30th Sept

Suggestions

- Private hospital should start providing digital therapies, remote monitoring, and home hospital procedures.
- Private hospital should start consulting Ayurvedic and Homeopathic services in hospital because according to the AYUSH department report, in future patient will look for Ayurvedic service.
- Hospital should provide training to the nonclinical staff to take on some basic activities such as temperature measure, basic screening methods etc.
- Hospital should prepare separate SOPs and guideline for the crisis
- Hospitals should more focus on infection control
- Hospital should reserve the supplies such as PPE kits and other equipment which are very important.

Conclusion

In the present study the effect of Covid-19 on private hospital sector is studied. This study reported about the Covid-19 effect on the revenue of the private hospitals in India. In this study observed the COVID-19 affected the operations of the private hospital with large reduction in patient footfall and increasing operating losses. Now the hospital sector also looking at the government to revive from this crisis by announcing a few measures to provide short-term relief and enhance cash flows of the hospitals. Actions like income tax refund, zero tax deduction at source, instant discharging of outstanding CGHS and ESI payments, subsidies in power tariffs, short-term funded loans, reduced customs duty on vital products, etc., to improve the cash flow conditions which have become crucial for the reality of healthcare providers in the country.

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